



25 Sigourney Street
Hartford CT 06106-5032

STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

IP 2003(26)

INFORMATIONAL PUBLICATION

Q & A on Sales and Use Taxes for a New Business

Purpose: This Informational Publication answers commonly asked questions about Connecticut sales and use taxes for a new business. State law requires a business to register for a *Sales and Use Tax Permit* if the business intends to sell goods or provide any taxable services in this state. As a retailer, including service providers, the business must collect and remit the sales tax to the Department of Revenue Services (DRS) for the privilege of doing business in Connecticut. A retailer that fails to collect the tax can lose its permit to conduct business in Connecticut and may owe penalty and interest in addition to the tax.

This publication provides basic information to help businesses avoid costly errors. See *Related Forms and Publications* on Page 6 for a list of publications with more detailed information on specific subjects.

What is the sales tax?

The sales tax is a tax imposed on the sale, rental, or lease of most goods and certain services at the rate of 6%. The tax is collected by the retailer and remitted directly to DRS. There is also a 12% room occupancy tax imposed on the rental of rooms in hotels, motels, or lodging houses for 30 consecutive days or less.

What businesses must collect sales tax?

A business that **sells, rents, or leases tangible personal property**, including but not limited to, home appliances, automobiles, craft items, household furnishings, antiques, VCRs and tapes, jewelry, stereo and TV equipment, computers, and computer software, must collect sales tax.

Some **services** are also taxable. Taxable services include, but are not limited to:

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising;
- Business analysis, management, management consulting, and public relations services, excluding any environmental consulting services;
- Cable and satellite television services;
- Computer and data processing services, including but not limited to, charges for on-line access to computer services (but excluding services rendered in connection with the creation, development, hosting or maintenance of all or part of a web site on the World Wide Web and Internet access services). The tax on computer and data processing services is 1%;
- Credit information and reporting services;
- Employment agencies and agencies providing personnel services;
- Exterminating services;
- Flight instruction and chartering by a certificated air carrier;
- Furnishing storage space for tangible personal property;
- Furniture reupholstering and repair services;
- Health and athletic club services;
- Janitorial services (including the cleaning of homes, offices, and commercial property);
- Landscaping and horticulture services;
- Lobbying or consulting services;
- Locksmith services;
- Maintenance services;
- Miscellaneous personal services (Industry Group 729 in the Standard Industrial Classification manual or U.S. industries 532220, 812191, 812199, or 812990 in the NAICS manual), exclusive of services rendered by licensed massage therapists and licensed electrologists;
- Motor vehicle parking, except metered space, in a lot with thirty or more spaces;
- Motor vehicle repair services;
- Painting and lettering services;
- Personnel training services;
- Photographic studio services;
- Piped-in music provided to business or professional establishments;

- Prepaid telephone calling service (including but not limited to calling cards) and the recharge of such service;
- Private investigation and security services;
- Radio or television repair services;
- Refuse removal for commercial, industrial, or income-producing property;
- Repair services to electrical or electronic devices;
- Repair or maintenance services to tangible personal property (other than services to vessels, shoe repair, and repairs to certain medical equipment);
- Repair or renovation services to industrial, commercial, and income-producing real property;
- Sales agent services for selling tangible personal property, except for the services of a consignee selling works of art or clothing, or the services of an auctioneer;
- Sign painting and lettering services;
- Stenographic services;
- Storage or mooring of any noncommercial vessel on land or in the water, other than during the period from November 1 through April 30;
- Swimming pool cleaning and maintenance services;
- Telecommunications services;
- Telephone answering services;
- Warranty and service contracts for any item of tangible personal property; **and**
- Window cleaning services.

For a complete list of taxable services, see Conn. Gen. Stat. §12-407(a)(37).

What items are not subject to sales tax?

There are a number of exemptions from the sales tax, including items of clothing and footwear costing less than \$50 each, food products, and fuel for home heating.

Must a business make a minimum amount of sales before it must register to collect sales tax?

No. A business must register with DRS before it makes any sales in Connecticut.

What is the use tax?

The use tax complements the sales tax. It generally applies to taxable tangible personal property or services on which the seller did not impose

Connecticut sales tax. Together, the sales and use taxes act to tax Connecticut purchasers equally, whether they purchase goods and services within or outside Connecticut.

If a business purchases taxable goods or services for use in a trade or business (such as office furniture, computers, and supplies) and the seller does not charge Connecticut sales tax, the purchaser must report purchases subject to the use tax on **Form OS-114, Connecticut Sales and Use Tax Return**, and must pay the use tax directly to DRS for the period in which the purchases are made. If an item purchased in another state already was subject to that state's sales tax, the purchaser can generally take credit for the tax when computing the Connecticut use tax.

How does a business register?

You may register on-line using DRS *Fast-File*. Visit the DRS Web site at www.ct.gov/DRS and click on *On-Line Registration*.

A business can also register for a *Sales and Use Tax Permit* by mail or in person at DRS, 25 Sigourney Street, Hartford CT 06106-5032, or at DRS regional offices located in Bridgeport, Hamden, Norwich, and Waterbury. The blue pages of the telephone book list the address of the office nearest to the business.

There is a \$50 fee to register for a *Sales and Use Tax Permit* and an additional \$25 fee to register for a license to sell cigarettes at retail (not through vending machines).

Use **Form REG-1, Business Taxes Registration Application**, to register for a *Sales and Use Tax Permit* as well as to register for:

- Admissions and Dues Tax
- Business Entity Tax
- Business Use Tax
- Cigarette Dealer's License (over-the-counter sales only)
- Corporation Business Tax (including Passive Investment Companies)
- Dry Cleaning Surcharge
- Income Tax Withholding
- Motor Vehicle Rental Surcharge
- Room Occupancy Tax
- Sales and Use Taxes
- Tourism Surcharge
- Unrelated Business Income Tax

If you register on-line, you must make direct payment of the registration fee on-line from your savings or checking account. You will receive your permit in approximately seven business days.

For what other taxes may a business be liable?

A business may be liable for state taxes administered by another state agency or for federal taxes. The Connecticut Licensing Info Center Web site is an online, searchable database of over 900 licenses, permits, and registrations administered by 25 Connecticut state agencies. Visit the web site at **www.ct-clic.com**

Contact the Internal Revenue Service (IRS) about federal tax requirements. The IRS telephone number is 1-800-829-1040. Walk-in assistance is available at the IRS office at 135 High Street in Hartford and other locations throughout Connecticut. Check the blue pages of the telephone book.

Once a business has a Sales and Use Tax Permit, will it ever have to obtain another one?

A *Sales and Use Tax Permit* is valid for five years. A new permit is issued and mailed to the business at the end of that period without an additional fee if its account shows no sales tax delinquencies. If the account shows one or more delinquencies, DRS will send **Form OR-219, Registration Renewal Form**, prior to the renewal date.

Each new business location must have its own *Sales and Use Tax Permit*. If a business expands and opens a second location, it must obtain a permit, and pay a \$50 fee, for the new location.

Also, if the ownership or structure of the business changes for federal tax purposes (for example, if a sole proprietorship becomes a partnership or corporation), the new business must obtain a new permit and pay the \$50 fee.

If a business performs a taxable service and sells taxable goods from the same location, does it need more than one seller's permit?

No. Only one permit is required in this situation. The one permit allows the business to collect tax for sales of goods and services, as well as rentals and leases made at the same business location.

What if a business is located out-of-state and intends to make sales into Connecticut through the mail or by common carrier?

If a business is located outside the state, but has any physical presence in Connecticut (such as owning or leasing real or tangible personal property, maintaining an office, or having employees or agents present in this state), it must register to collect Connecticut use tax on sales to Connecticut customers and must obtain a *Sales and Use Tax Permit*. If the business does not have any physical presence in Connecticut, but wishes to register to collect Connecticut use tax, it may also register for a permit. All businesses making sales from outside the state should register using **Form REG-7, Application for Authority to Collect Connecticut Use Tax**.

What if a business is located out-of-state but will come into Connecticut and sell (for example, at a craft show or flea market)?

Before making any sales in Connecticut, the business must complete **Form REG-1**. DRS will issue a *Sales and Use Tax Permit* and will require the business to collect Connecticut sales tax. The business must obtain a *Sales and Use Tax Permit* if it performs any taxable services in this state.

How does a business get a new copy of its sales and use tax permit if it changes its address or loses the permit?

Notify DRS in writing at the following address:

Department of Revenue Services
Registration Unit
25 Sigourney Street
Hartford CT 06106-5032

There is no fee to replace a sales and use tax permit.

How often are sales and use tax returns filed?

Generally, new businesses file **Form OS-114** on a quarterly basis. The quarterly periods and return due dates are:

Periods	Due Dates
January 1 - March 31	April 30
April 1 - June 30	July 31
July 1 - September 30	October 31
October 1 - December 31	January 31

If the business's sales and use tax liability exceeds \$4,000 per year, DRS may require it to file monthly sales and use tax returns. A business may request to file on an annual basis if its sales and use tax liability is less than \$1,000 per year. All returns are due on the last day of the month following the end of the reporting period.

Should a business file a return if it made no sales during the reporting period?

Yes. Complete the return showing *zero sales* and *zero tax due*.

On what price does a business compute sales tax?

The tax is computed on the gross receipts or sales price of the sale, rental or lease of the goods or service. Tax is not computed on the business's cost of goods or services. The tax must be billed to customers in one of two ways:

1. Tax included, in which case the bill must be marked *tax included*, **or**
2. The tax is added to the sales price, and separately stated on the bill.

If a business bills customers *tax included*, it must keep records showing the sales price of the goods or services and the tax charged.

If a business bills its customers *tax included*, how does it report gross receipts on Line 1 of the sales and use tax return?

For sales taxed at 6%, multiply the amount billed to the customer by 94.3% (.943). The result is the gross receipts that must be reported on Line 1 of the return.

Example:

Billed amount (tax included)	\$100.00
Multiplication factor (94.3%)	<u>x 0.943</u>
Gross receipts (Line 1)	\$ 94.30

When does a business report its sales?

In general, a seller of goods and taxable services must report sales on the accrual basis. This means that all sales must be reported during the filing period in which the sale is made, not when the customer renders payment. For guidance as to when certain sales are made, such as layaway, mail order, telephone, Internet, and custom order sales, contact the DRS Taxpayer

Services Division. See *For Further Information* on Page 6 for telephone numbers.

When may a business report sales on a cash basis?

A seller of certain services that files with the IRS on a cash basis may be able to file sales and use tax returns with DRS on a cash basis. A seller of goods cannot file sales and use tax returns with DRS on a cash basis. Contact the DRS Taxpayer Services Division for more information on who may file on a cash basis.

Can a business purchase inventory or goods for resale without paying sales tax?

Yes. A business can purchase goods it intends to resell without paying sales tax. To do this, a business must complete a Connecticut *Sales and Use Tax Resale Certificate* and give it to the vendor when it makes a purchase of goods it intends to resell in the regular course of business. A business may use a blanket certificate for a continuing line of purchases. A blanket certificate is valid for three years.

A certificate may **not** be used to purchase items for use by the business, such as office supplies, furniture, and fixtures. These purchases are subject to use tax if the business does not pay Connecticut sales tax.

Can a business purchase services for resale without paying sales tax?

Yes. A business may issue a Connecticut resale certificate to a service provider for the purchase of a service listed in Conn. Gen. Stat. §12-407(a)(37) if the business intends to transfer the service as an integral, inseparable component part of a service listed in Conn. Gen. Stat. §12-407(a)(37) that the business will subsequently sell either to another service provider or to an ultimate consumer. A service is an *integral, inseparable component part* of a listed service if the service purchased by the business from the service provider is essential to complete the performance of the business' service and without which the business' service could not be rendered.

How do customers demonstrate they are exempt from paying sales tax?

The customer must give the business a completed Connecticut *Sales and Use Tax Resale Certificate* or other approved exemption certificate. Retailers

making sales in Connecticut should not accept exemption certificates issued by other states. **Informational Publication 2000(26), *Getting Started in Business***, includes a list of exemptions and certificates. If a business has a question about the validity of an exemption claimed by a customer, contact the DRS Taxpayer Services Division.

If a business makes a sale and delivers the goods outside Connecticut, should it collect Connecticut sales tax?

No. If the title to the goods transfers to the purchaser outside Connecticut, Connecticut sales tax does **not** apply. For example, Connecticut sales tax would not apply if a company ships the goods or arranges to have the goods shipped to a customer outside Connecticut. (However, depending upon the company's activities in the other state, it may be required to register and collect sales tax for that state.)

Connecticut sales tax **does** apply if title to the goods transfers in Connecticut, even if the purchaser lives in another state. For example, if the customer comes to a Connecticut location and takes possession of the goods, the seller must charge Connecticut sales tax even if the customer takes the goods in his own vehicle to an out-of-state location or arranges to have the goods picked up from the Connecticut location and delivered to an out-of-state location. In addition, if a business makes a sale outside of Connecticut but delivers the goods into Connecticut in a vehicle owned or leased by the business, it is required to collect Connecticut use tax.

The Buy Connecticut provision also allows certain purchasers to request refunds of sales and use taxes paid on tangible personal property purchased from Connecticut retailers and eventually shipped out of Connecticut for exclusive use outside Connecticut. It allows the Commissioner of Revenue Services to issue permits that enable qualified purchasers to purchase tangible personal property without payment of sales and use taxes otherwise imposed. See **Special Notice 2001(5), *The "Buy Connecticut" Provision***.

Connecticut and New York businesses may elect to collect tax on behalf of the other state if they participate in the New York/Connecticut Sales Tax Agreement. Contact the DRS Taxpayer Services Division for information about this agreement.

Are penalties and interest imposed for filing a sales and use tax return late?

Yes. There is a penalty of \$50 or 15% of the tax due (whichever is greater) for the late payment of the tax. Interest of 1% per month or fraction of a month is calculated on the underpayment of tax.

Even if no tax is due, the Commissioner may revoke the seller's permit for the late filing of the return.

What records must a business keep to verify the figures on its sales and use tax return?

The business must keep the following records for a **minimum of six years**:

- Sales receipts;
 - Purchase invoices;
 - Cash register tapes;
 - Restaurant guest checks;
 - State and federal tax returns;
 - Documents that show price changes;
 - Resale and exemption certificates;
 - General ledger;
 - Sales, purchases, accounts receivable, and accounts payable journals; and
 - Other documentation necessary to support the sales and use tax return.
-

A business is closing. What should it do?

The business must cancel its *Sales and Use Tax Permit* as follows:

1. File its monthly, quarterly, or annual return and enter the last business date in the block provided. Write the word **Final** prominently across the top of the return; and
 2. Complete the back of the permit and enclose the permit card with the return.
-

If a person purchases a business, is the person obligated for the previous owner's sales tax liability?

Yes. The purchaser of a business is liable for the taxes of the previous owner to the extent of the purchase price of the business **unless** the purchaser gets a tax clearance certificate from DRS. To avoid successor liability, the purchaser must get a *Tax Clearance Certificate for Sales and Use Taxes* before it purchases an existing business.

For more information on how to get a *Tax Clearance Certificate for Sales and Use Taxes*, see **Informational Publication 2002(16)**, *Successor Liability for Sales and Use Taxes and Admissions and Dues Tax*, or call the DRS Refunds, Clearance, and Adjustments Unit at 860-541-3253.

Effect of This Document: An Informational Publication addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

Effect on Other Documents: This Informational Publication modifies and supersedes **Informational Publication 2002(26)**, *Q&A on Sales and Use Taxes for a New Business*, which may no longer be relied upon on or after the date of issuance of this publication.

Related Forms and Publications: Ask for the current edition of the following forms and publications for more information:

- **Informational Publication 2002(16)**, *Successor Liability for Sales and Use Taxes and Admissions and Dues Tax*
 - **Informational Publication 2002(25)**, *Q&A on the Connecticut Use Tax for Businesses and Professions*
 - **Informational Publication 2001(14)**, *Business Taxes*
 - **Informational Publication 2000(14)**, *Notice to Retailers on Sales and Use Tax Resale Certificates*
 - **Informational Publication 2000(26)**, *Getting Started in Business: Understanding Connecticut Taxes*
 - **Informational Publication 99(19)**, *Building Contractors' Guide to Sales and Use Taxes*
 - **Policy Statement 2003(2)**, *Sales and Use Taxes on Access to the Internet and Other On-Line Sales of Goods and Services*
 - **Policy Statement 2003(3)**, *Sales and Use Taxes on Computer-Related Services and Sales of Tangible Personal Property*
-

IP 2003(26)
Sales and Use Taxes
New Business
Issued: 10/06/2003

- **Special Notice 2001(2)**, *Miscellaneous Personal Services*
 - **Form REG-1**, *Business Taxes Registration Application*
 - **Form REG-7**, *Application for Authority to Collect Connecticut Use Tax*
-

For Further Information: Please call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime:

- **Internet:** Preview and download forms and publications from the DRS Web site at www.ct.gov/DRS
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
-

Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use **Fast-File** to file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the Internet or telephone. Visit the DRS Web site at www.ct.gov/DRS and click on **File Returns On-Line** or call **860-947-1988**.
- **For resident income tax returns:** Use **WebFile** to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on **File Returns On-Line**.